



# STATE OF THE REGION: EUROPE

MAY 2018

## Economy

### GDP growth, selected countries

%change on a yr ago	2017	2017Q3	2017Q4	2018Q1
Germany	2.5	2.7	2.9	2.3
Russia	-0.2	2.2	0.9	--
France	2.0	2.3	2.6	2.1
UK	1.8	1.8	1.4	1.2
Italy	1.6	1.8	1.6	1.4
Spain	3.1	3.1	3.1	--
Turkey	7.4	11.3	7.3	--
Israel	3.3	3.2	3.1	4.0
Euro zone	2.5	2.7	2.8	2.5
<b>World*</b>	<b>3.1</b>	<b>3.2</b>	<b>3.2</b>	<b>3.3</b>

Source: Datastream \* Market exchange rate basis † Estimate

### Exchange rates

end of period, # per US\$	2017	Feb-18	Mar-18	Apr-18
US\$ broad index	120.0	117.6	118.1	118.2
European euro (EUR)	0.83	0.82	0.81	0.83
Russian ruble (RUB)	57.7	56.2	57.4	62.9
British pound (GBP)	0.74	0.73	0.71	0.73
Turkish lira (TRY)	3.79	3.80	3.96	4.06
Israeli shekel (ILS)	3.48	3.48	3.51	3.60

Source: Datastream, XE

### World oil and jet fuel price

US\$/barrel (period ave.)	2017	Feb-18	Mar-18	Apr-18
Crude oil (Brent)	54.2	65.3	66.0	72.1
Jet fuel	65.6	77.7	78.0	84.6

Source: Platts, EIA Monthly average data

## Market

### Revenue passenger kilometers (RPKs)

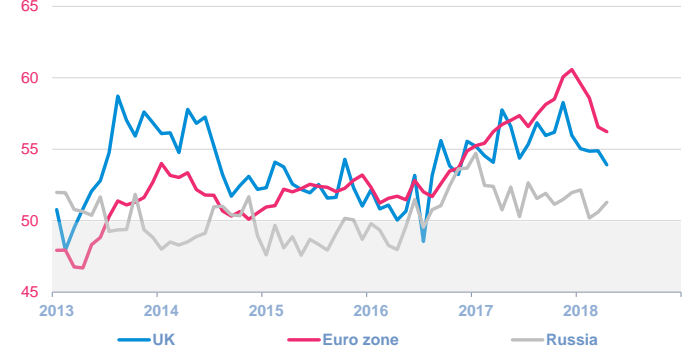
%change on a yr ago	2017	Jan-18	Feb-18	Mar-18
<b>Region (registration basis)</b>				
Europe	8.2	6.5	7.0	9.5
World	7.6	4.5	7.7	9.5
<b>Routes (segment basis)</b>				
Russia domestic	10.4	8.1	5.9	5.9
Within Europe	10.8	9.8	8.8	10.9
Europe - North America	4.1	0.2	1.4	8.2
Europe - Asia	9.5	4.8	7.1	8.8
Europe - Middle East	6.6	2.4	5.3	13.1
Europe - Africa	6.5	8.0	6.9	10.7
Europe - South America	6.1	8.7	9.8	10.4

Source: IATA Statistics Note: historical data may be subject to revision

- Industry-wide RPK growth lifted again this month, building on last month's healthy rebound. Passenger volumes are 9.5% higher in March compared with their level of a year ago – the fastest rate of growth in a year & well above the 5-year average pace.
- The European carriers also saw a consecutive rise in the RPK growth rate this month, now matching the industry-wide pace of 9.5yoy.

### Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



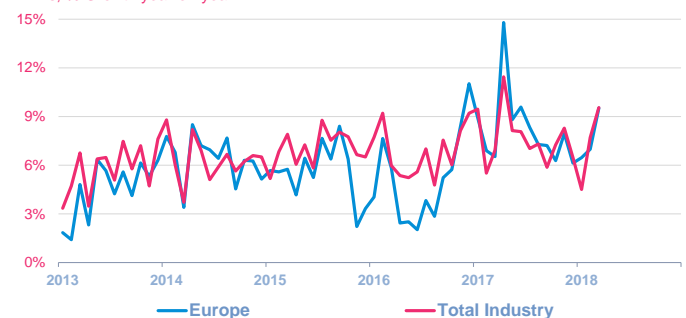
Source: Markit

- Business confidence in the Eurozone & UK eased a little this month, the latter reflecting renewed Brexit concerns. Confidence rose in Russia in May, notwithstanding the imposition of additional US sanctions.
- On a trade-weighted basis, the US\$ was essentially unchanged in April. Most of the main regional currencies, softened against the US\$ over the month, with the RUB down a sizeable 9.6%. The TRY & ILS were both down around 2.5%.
- Brent crude oil & jet fuel prices surged this month, gaining more than US\$6/bbl & moving to their highest levels since 2014. Heightened geopolitical risks, along with supply tightening, were the key drivers in April.

- Annual growth in passenger volumes for the Russia domestic market was unchanged in March, at a robust 5.9%yoy.
- RPK growth across each of the region's larger international markets accelerated this month, with a number now running at a double-digit pace. The strongest performer on this occasion is the Europe-Middle East market, at 13.1%yoy, closely followed by Within Europe at 10.9%.

### Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

## Freight tonne kilometers (FTKs)

%change on a yr ago	2017	Jan-18	Feb-18	Mar-18
<b>Region (registration basis)</b>				
Europe	12.1	11.0	6.1	1.0
World	9.1	8.5	6.7	1.7
<b>Routes (segment basis)</b>				
Europe - Asia	11.0	11.0	8.7	-1.0
Europe - North America	9.9	6.3	6.9	7.3
Europe - Middle East	11.0	2.4	4.1	0.4
Europe - Africa	2.4	4.1	0.2	0.2
Europe - South America	6.9	16.6	15.8	17.0
Within Europe	32.9	23.3	14.0	3.9

Source: IATA Statistics Note: historical data may be subject to revision

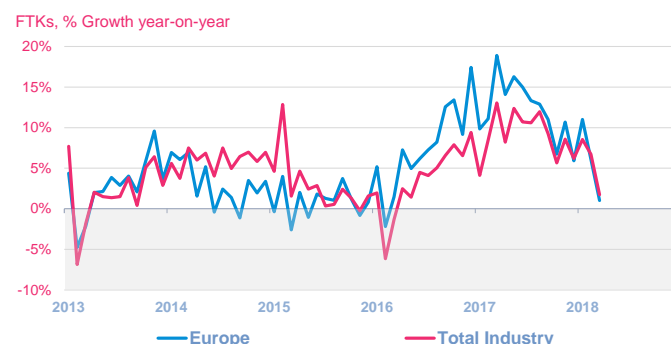
→ After a robust start to the year, the industry-wide FTK growth rate slowed to just 1.7%yoy in March. For Q1 overall, freight volumes are up 5.4%yoy, but a softening in the seasonally adjusted trend has become more apparent in recent months.

→ A similar pattern is evident this month at the regional level, where FTK growth eased substantially, to a modest 1.0%yoy.

→ Outcomes are mixed across the region's main international markets. A sharp unwind in growth for the largest Europe-Asia market (where FTKs are now 1% lower yoy) was partly offset by a lift in the rate of growth in the #2 market of Europe-Nth America (to 7.3%yoy).

→ The smaller market of Europe-South America continues to record the strongest freight volume growth, at a double-digit pace of 17.0%yoy.

### Growth in air freight volumes



Source: IATA Statistics

## Industry

### Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: % of ASK/AFTK		2017	Jan-18	Feb-18	Mar-18
<b>Passenger</b>					
Europe	ASK	6.2	5.2	4.9	6.1
	PLF	83.9	80.0	81.5	83.9
World	ASK	6.3	5.2	6.3	6.4
	PLF	81.5	79.6	80.6	82.4
<b>Freight</b>					
Europe	AFTK	5.8	6.0	4.0	3.4
	FLF	46.6	45.3	47.6	49.2
World	AFTK	3.0	5.4	6.3	4.4
	FLF	45.5	43.0	44.0	46.4

Source: IATA Statistics. Note: LF=seasonally adjusted load factor. ASK=available seat kilometers. AFTK=available freight tonne kilometers

→ Over the past year, the European carriers have increased both pax and freight capacity at a slower rate than the industry as a whole. ASKs are up 6.1% vs 6.4% & AFTKs are up 3.4% vs 4.4% at the industry level.

→ The latest load factor data (March) continue to show the European airlines are doing better than the industry overall. On the pax side, the European airlines recorded a load factor of 83.9% in March vs 82.4% industry-wide. For freight, the outperformance is larger, at around 3pp (49.2% vs 46.4%, respectively).

→ The initial data for Q1 point to a modest improvement in the industry-wide EBIT margin, at 6.8% vs 6.5% a year ago. For the region's carriers, the Q1 outcome is broadly

on a par with that of Q1 2017 (-2.4% currently vs -2.2% a year ago). Recall that these data are not adjusted for seasonal variations & Q1 is seasonally soft for the European carriers.

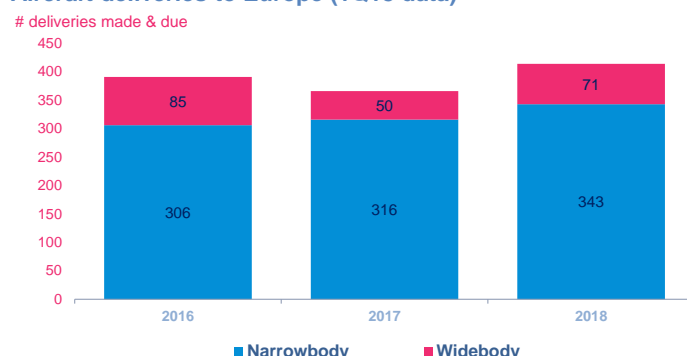
→ Passenger yields amongst the region's key markets continue to show solid – if not strong – increases compared with a year ago. The strongest performers currently are the Within Europe & Europe-Africa markets where yields are up 17.8% & 12.2%yoy, respectively. Yields in the domestic Russia market eased back from their double-digit pace, but remain healthy, up 6.7%yoy.

### Passenger yields (US\$, excl. surcharges & ancillaries)

%change on a yr ago	2016	Jan-18	Feb-18	Mar-18
Russia domestic	5.2	11.1	10.0	6.7
Within Europe	-8.5	13.7	19.0	17.8
Europe - North America	-8.5	10.7	12.6	5.9
Europe - Asia	-10.8	9.5	6.0	6.4
Europe - Middle East	-12.2	7.7	5.7	4.9
Europe - Africa	-8.8	9.1	11.2	12.2
Europe - South America	-17.4	15.9	15.4	8.9

Source: IATA PaxIS Note: historical data may be subject to revision

### Aircraft deliveries to Europe (1Q18 data)



Source: Ascend

### Airline operating (EBIT) margins\*

%revenues	2015	2016	2017Q1	2018Q1
Europe	5.4	6.1	-2.2	-2.4
Industry	8.5	8.8	6.5	6.8

Source: Airline Analyst \* constant sample basis, not seasonally adjusted